Remarks of
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Ranking Democrat, House Subcommittee on
Telecommunications, Trade, and Consumer Protection
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Good Afternoon.

I'm happy to be here today to discuss with you the ongoing telecommunications revolution and the prospects for a smooth transition to a fully privatized, fiercely competitive and wide open global telecommunications marketplace. There is obviously a tremendous amount of change underway in the global telecommunications marketplace but there is also much historical inertia that continues to thwart progress.

The WTO agreement on basic telecommunications services that is currently being implemented worldwide holds the promise of opening up global markets for telephony, data transmission, fax services, paging and personal communications systems and other services. Yet perhaps more importantly, beyond the market segment commitments that member countries have made, there are also key regulatory changes that will permit fair and open competition among nations. For instance, fundamental adjustments to historical models of state-owned telecommunications companies are being made in country after country. There are a number of important and welcome regulatory changes such as the establishment of independent regulators, safeguards for competitors, interconnection rights, universal service principles and transparent and open licensing criteria and procedures.

Not everything happening out there during this time of transition paints a rosy picture however. Some countries in the WTO agreement made stronger commitments than others: Canada and Japan for instance will still keep much lower limits on foreign ownership in their countries and since Russia and China are not members of the WTO, they did not make any offers or commitments as part of this agreement. But even with these limitations and some lackluster offers from certain countries, the commitments being implemented this year are expected to make nearly 90 percent of the global basic telecommunications marketplace open to competition. This will help to create more jobs, develop new markets, lower prices, increase quality and innovation across the planet. It has been estimated that the deal could double or triple the size of the world telecommunications industry in the next ten years and bring $1 trillion in benefits to consumers.

In the midst of such profound technological and regulatory change, countries both large and small, as well as companies large and small, entrepreneurs and recovering monopolists alike, must tack to a new wind. Countries and captains of industry must make critical adjustments and change course.

I'm reminded of a story which illustrates how sometimes captains and countries need to change course.

It's a story of a ship and its captain plying the ocean on a foggy night.

The radar officer announces to the captain, "Blip on the screen, dead ahead sir."

The captain says, "Tell that ship to turn 15 degrees starboard at once."

The radar officer sends the signal and the response comes back: "You move 15 degrees starboard."

The captain's irate and says "Tell him again -- move 15 degrees starboard."

And again the response comes back: "You move 15 degrees."

The captain grabs the radio himself and says, "This is the captain of the greatest ship on the seas. Move to the starboard 15 degrees at once!"

And the answer comes back: "This is the lighthouse....you move 15 degrees!"

It must sometimes seem as if the international telecommunications marketplace is a vast sea without lighthouses. Some of the reefs are marked, but many are not, and you can hit them with no warning. Agreements such as the WTO help give direction to captains of industry. My focus today is on a similar effort to improve navigation in this area - the effort to privatize the international satellite communications market.

Hopefully, in the next day or two the House of Representatives will take up legislation that I have cosponsored with Commerce Committee Chairman Tom Bliley. This legislation provides a blueprint for the privatization of the two international consortia that today dominate international satellite communications.

Our international space odyssey began in 1945, when Arthur C. Clarke published an article stating that communications signals could be transmitted to and from earth by placing a relay station in space over the earth's equator. Within 50 years, we have seen satellite technology go from theory in the scientific community, to the launching of national efforts to send satellites into orbit, and then to global treaty organizations created to regulate and service the satellites and the orbital assets they utilize. Now, as we approach the end of the century, the private sector has plans for multibillion dollar projects to launch their own constellations of satellites to serve markets around the planet.

The two international satellite organizations -- INTELSAT and INMARSAT -- are currently considering proposals for restructuring and "privatization." I want to emphasize however, that privatization alone does not a competitive market make. Just as in America's domestic telecommunications market, simply deregulating communications industries does not in an of itself ensure that we achieve competitive markets. Policymakers have to make ongoing efforts to break down historic barriers to competition. The Telecommunications Act of 1996 embodies a policy of de-monopolizing markets first, and then deregulating towards ever more competition. Likewise, in our satellite policy we should insist on restructuring and fully privatizing INTELSAT and Inmarsat toward the end goal of creating ever more competition.

Only by combining the best of Arthur C. Clarke with Adam Smith can we hope to have a competitive satellite industry offering a "communicopia" of high quality, low price, telecommunications choices to consumers worldwide, while creating jobs for Americans here at home. This week the Bliley-Markey satellite bill will be considered on the floor of the House of Representatives. This legislation will promote the full privatization of INTELSAT and Inmarsat, by the years 2002 and 2001 respectively, and if they do not succeed in fully privatizing, then they will be limited to providing the "core services" -- such as voice telephone service - that they were created to perform.

When Congress passed the Communications Satellite Act in 1962 -- creating a new organization, COMSAT -- it did so with the specific mission of forming an international consortium to operate an international commercial satellite communications system. As a result, COMSAT, and subsequently the International Telecommunications Satellite Organization (INTELSAT) were established with the

assistance of a partnership of nations in Europe, North America, and developing areas of the world. The COMSAT Act's passage came in the midst of the Cold War, during our space rivalry with the Soviet Union. At that time it took national efforts to put these technologies in orbit.

The COMSAT Act was highly successful in fulfilling its original mission set out 35 years ago. Today, INTELSAT is a global communications satellite cooperative with 142 member nations which provides space segment for international telecommunications. It currently operates 24 satellites. It is the dominant provider of international "fixed" satellite services such as transoceanic telephone calls and television video feeds, and it is currently seeking to expand into a wide array of advanced services. In 1979, a similar organization to INTELSAT - the International Maritime Satellite Organization (Inmarsat) - came into existence. Inmarsat developed out of the perceived need for a global maritime communications satellite system that would provide distress, safety and communications services to all seafaring nations in a single cooperative, cost-sharing entity. Today Inmarsat has 82 member countries and operates 8 satellites.

COMSAT, the U.S. signatory to INTELSAT and Inmarsat, has the sole right of access to INTELSAT and Inmarsat from the United States. Any private company wishing to use INTELSAT's or Inmarsat's satellites to or from the U.S. must purchase satellite capacity through COMSAT. This is the last remaining monopoly in US communications statutes and the Bliley-Markey satellite bill gets rid of it and allows for competition in reselling INTELSAT and Inmarsat services.

The Communications Satellite Act of 1962 has served to fulfill President Kennedy's vision of bringing the world together by providing worldwide communications links through the use of satellite technology. The Act, however, clearly needs to be updated to reflect the fiercely competitive global environment and the rapid technological change underway in satellite-based services and technologies.

The pioneer who challenged the status quo was the late Rene Anselmo who former FCC Chairman Reed Hundt once called the "Indiana Jones" of international communications. Since Anselmo's first private satellite launch in 1988, the private satellite industry has grown relatively slowly - relative that is, to its global potential. If Rene were with us today he would undoubtedly contend that this slow pace is due to INTELSAT's continued market dominance and anti-competitive practices. Today, only three separate satellite systems survive from the original 8 applicants. Anselmo's company, PanAmSat, which was recently purchased by Hughes Communications Inc., currently operates 5 predominantly international satellites. Orion, which was recently purchased by Loral, currently operates one satellite and is planning the launch of its second in 1999. And Columbia Communications currently leases capacity on a NASA satellite.

While the international satellite market has yet to reach its potential, the future of international satellite services looks promising -- but only if we can continue to make progress internationally in opening up markets and ending the built-in privileges that INTELSAT and Inmarsat still enjoy. Experts predict that more than 1,700 satellites will be launched in the next decade, an increase of almost 10 times the 200 or so commercial satellites now in orbit. Furthermore, it is estimated that revenue from satellite services will more than triple from $9 Billion today to $29 Billion within the next two to three years.

This potential growth can be traced to four main reasons: (1) worldwide demand for services has increased; (2) the world's domestic telecommunications monopolies are finally being privatized; (3) the innovation and development of Low Earth Orbit satellites (LEOs); and (4) the cost of satellite construction, launch and operation and that of related equipment has dropped dramatically. From hand-held wireless communications to Internet access to advanced direct-to-home video services, the "sky is the limit" for what satellite providers will do in the near future.

And many satellite providers are planning to serve markets that today do not exist. It is estimated that over half of the world's population have never placed a phone call. Many fewer have ever used the Internet.

Does that mean there is a market for all of this space gadgetry?

I'm reminded of a story about two sneaker salesmen who are sent by company headquarters to explore market opportunities in a remote part of Australia. After a couple of weeks the first sneaker salesman returns home and informs his boss that he had bad news - there was no market there because the natives didn't wear shoes.

At that very moment, a telegram arrives from the second salesman to the boss which reads: **"Great News!!! Fantastic Market opportunities here - the natives don't wear shoes!!!"**

I believe that traditionally underserved and unserved markets are the real growth opportunities because populations that are often unserved by traditional telephone networks because of the high-cost of ubiquitous service with traditional landline technology can be reached highly efficiently and at low cost by satellite technology. These are new markets and represent great opportunities.

Companies preparing to reap the market potential and enter the wireless telephone marketplace include such players as Iridium, Globalstar, and Ellipso. Companies preparing to enter the satellite data marketplace include Teledesic, Motorola's Celestri, Loral's Cyberstar, and Hughes' Spaceway.

While the global satellite marketplace is expected to grow, there are significant barriers in many markets that hamper competition. These impediments are the outgrowth of the structure and operations of the intergovernmental satellite organizations, INTELSAT and Inmarsat, and the cozy relationship of these entities with their Member nations. Furthermore INTELSAT and Inmarsat have the advantages of immunity from antitrust law, an unmatched fleet of international satellites in key orbital locations, financed at preferential rates available because as intergovernmental organizations, INTELSAT and Inmarsat can more easily raise capital.

There is no question that INTELSAT and Inmarsat enjoy a substantial market advantage that harms the development of competition. Signatories have a natural and financial reason to be biased in favor of INTELSAT, Inmarsat, and any non-independent spin-off over private satellite providers because these signatories own INTELSAT and Inmarsat. And we must remember that the majority of signatories to INTELSAT and Inmarsat are still government-owned operators whose regulatory bodies currently have a financial interest in limiting competition.

From an American perspective it is vitally important to break down these orbiting cartels, rid them of governmental privileges and advantages, and fully privatize them. It is simply unfair to have private American companies, which are putting BILLIONS of dollars on the line to compete for consumers, to try to compete against international governmental treaty organizations in the global marketplace.

The international satellite organizations have learned to "talk the talk" about competition but they are not even remotely close to "walking the walk" on what a robustly competitive global marketplace means. We have seen how foreign companies try to forestall innovation in technology and service competition before. No monopoly ever goes quietly into that good night. But what I want for INTELSAT and Inmarsat is for them to be part and parcel of the capitalist system and to compete on even terms in a global marketplace. And I want that marketplace to be an absolutely ruthlessly competitive, Adam Smith, capitalistic, Darwinian marketplace and I believe that every deserves such

competition.

This is a vision that is not simply a good idea. It must become a reality in order for our overall competition policy to be a success. Because that's what is good for consumers, good for the American satellite industry, and that is what will help the U.S. create the high technology jobs we need to create in the post-GATT, post-NAFTA, post-WTO world.

And how has Intelsat responded thus far? Let me tell you because their latest spin-off plan is quite simply a giant global welfare program in the sky.

A few weeks ago in Brazil, INTELSAT approved the creation of a company called the INTELSAT NEW COMPANY - or "INC" for short. At the beginning of the negotiations, the US position was that INC should be a spin-off, should not have any Intelsat ownership as it went out to compete against US companies, that Intelsat signatory ownership of the INC spin-off should be capped at 20 percent, that INC's privileges and immunities should be effectively waived so that it was on even footing with US competitors, and that it should be a truly independent competitor in the marketplace.

And what did INTELSAT give us instead? What it has approved is the facade of a new company - a giant satellite "yo-yo" that remains tethered to its cartel ancestors -- because under the plan, INC can be 100 percent owned by Intelsat and its signatories, it transfers valuable global satellite slots and satellites at book value from Intelsat to INC, it allows Intelsat to assume the debt so that INC receives these assets debt-free, and has 5 of the 7 board members and the CEO chosen by Intelsat. But that's not all - this so-called start-up company gets to begin life competing against American companies with a $60 million gift loan from INTELSAT. Where does that money come from? US consumers are paying to help set up this complete fraud of a competitive spin-off.

The Bliley-Markey satellite legislation that will go to the House Floor later this week contains provisions that will ensure that INC - or any spin-off entity like it - will not gain access to the US market until it is fully privatized and made a competitively independent player. Market access can be denied because INTELSAT and Inmarsat are not WTO members, and it ought to be denied because what INTELSAT is describing for INC is not truly a spin-off, it's just spin. It's the illusion of competition, the illusion of privatization.

This is just one concrete reason why the Bliley-Markey satellite bill is desperately needed and needed with provisions that have real teeth in them. I believe that Congress must legislate in this area in order to make it perfectly unambiguous that the US is 100 percent behind a truly privatized system and fully backs a fair and robustly competitive international satellite marketplace.

Thank you for inviting me.